

# Budget 2011: Will India tighten its belt?

REUTERS, New Delhi

Finance Minister Pranab Mukherjee will try to ease inflation-hit voters' pain with a budget heavy on spending for food, fuel and fertiliser subsidies, while selectively lifting taxes to meet fiscal targets.

Mukherjee, known to compromise on fiscal reforms to meet political needs, faces a tough time reining in inflation while keeping the economy on a high-growth path when he presents his annual budget for 2011/12 in parliament on Feb. 28.

Last year, India rolled back about \$10 billion of a \$40 billion stimulus package implemented during the 2008 global financial crisis.

This year, the Congress party leadership is unlikely to make tough belt-tightening decisions. It is on the back foot over corruption scandals and faces elections in four major states.

Stubbornly sticky inflation in Asia's third largest economy, driven by food and other commodity prices, combined with a high fiscal deficit has prompted repeated calls from the central bank for fiscal consolidation.

However, New Delhi tends to bank on higher revenues rather than spending cuts, a formula that worked in the current fiscal year thanks to a windfall from the sale of 3G mobile bandwidth.

Since Mukherjee wants to reduce the fiscal deficit to 4.8 percent of gross domestic product in 2011/12 and 4.1 percent in 2012/13, he is expected to continue a gradual rollback of the fiscal stimulus package unveiled during 2008 global crisis.

In last year's budget, he trimmed the package by raising factory gate duties on all major items to 10 percent from 8 percent and reimposing the taxes on crude oil, petrol and diesel that were withdrawn in 2008.

The government rolled out its stimulus package in three phases during 2008 and 2009 by cutting taxes and lifting spending on infrastructure to prop up demand.

Meanwhile, an effort to overhaul India's tax system has been deferred until next year, meaning Mukherjee may hold off on raising tax rates across the board and instead lift rates only for goods such as cars and commercial vehicles, while bringing more services into the tax net.

Mukherjee could rely on a surge in domestic demand and global recovery to drive tax receipts to meet fiscal targets.

The Indian central bank, which has raised rates seven times since March to tackle high inflation, hopes the government moves towards fiscal consolidation in 2011/12.

The finance minister may also marginally



AFP

People grapple over free food during a procession in New Delhi on Wednesday. Under attack for high food prices and slow reforms, Indian Prime Minister Manmohan Singh said UPA has not given up its economic agenda and promised clear measures in the upcoming Budget.

lower government borrowings below this year's 4.47 trillion rupees (\$98 billion) to show his commitment to fiscal consolidation, though he will not have the cushion of revenue from the 3G spectrum auction in the new year.

The government could raise up to 400 billion rupees from the sale of stakes in companies, partially offsetting a swelling food subsidy bill estimated at 700 billion rupees. A downturn in the stock market, however, has curbed investor appetite for new issues for the time being.

The widening gap between international crude prices, now over \$100 a barrel, and domestic retail prices of diesel, cooking gas and kerosene, could force Mukherjee to slash levies on imported crude and domestic petroleum products.

High inflation and upcoming state elections mean Mukherjee will not pass along the full

impact of rising crude prices.

The oil ministry has urged Mukherjee to eliminate the 5 percent customs duty on crude and reduce duties on petrol and diesel to 2.5 percent from 7.5 percent.

India wants its economy to grow at 9 percent in 2011/12, up from about 8.5 percent this fiscal year, even as inflation remains well above government targets, at 8.23 percent in January.

More infrastructure would help ease bottlenecks. The Planning Commission, a government body, has recommended an increase of up to 20 percent from last year's \$38 billion budgeted for sectors including roads, ports, airports and railways, as well as for health and education.

Mukherjee may direct funds towards more production of milk, poultry, fish, vegetables and fruit, which have driven food inflation running

at 11 percent annually.

The government is focused on blunting opposition attacks over a series of corruption scandals and may announce a broad parliamentary probe into the huge 2G spectrum scandal. At this time, it is unlikely to try anything controversial.

Mukherjee will therefore probably not announce any major economic reforms such as opening the retail sector more broadly to foreign investors or raising foreign investment limits in insurance, although some reforms may be announced later.

He may, however, announce the set-up of an infrastructure debt fund and initiatives to deepen the corporate debt market.

The finance minister and central bank have expressed concern over the high current account deficit and the reliance on fickle short-term portfolio inflows to fund it.

## Fed sees firmer US recovery

AFP, Washington

The US economic recovery is now on a firmer footing, with consumers and businesses spending more despite still-high unemployment, according to Federal Reserve's top policy panel.

Minutes of the Fed's January meeting, published Wednesday, pointed to the bank's more optimistic view of the US recovery, despite persistent high unemployment.

"Many participants" at the Fed's last meeting believed the "expansion was on firmer footing," according to the text.

"Participants generally expressed greater confidence that the economic recovery would be sustained and would gradually strengthen over coming quarters."

As a result the Fed sharply increased its growth estimates for this year, predicting GDP would rise by 3.4 to 3.9 percent, versus the 3.0 to 3.6 percent predicted last November.

A marked improvement in consumer spending appeared to be a key factor in the Fed's rosier outlook.

"Consumer spending rose strongly late last year," Fed economists said, noting that businesses were also spending more on equipment and software.

"Spending by households picked up noticeably in the fourth quarter; business outlays continued to grow at a moderate pace."

Policy makers noted that "spending on luxury goods also increased, and the pace of holiday sales was better than in recent years."

## China January foreign direct investment rises 23pc

AFP, Beijing

Foreign direct investment in China rose 23.4 percent in January from a year earlier, the government said on Thursday, despite an official campaign to stem liquidity and control inflation.

China attracted \$10.03 billion in foreign investment last month, commerce ministry spokesman Yao Jian told reporters.

The figure indicated continued revival in investment after growth slowed sharply in August and despite moves by the government to slow the economy -- including last week's third interest rate hike in four months.

The January figure compares to growth of 15.6 percent in December, when \$14.03 billion in investment flowed into China.

Foreign direct investment (FDI) hit a

full-year record of \$105.7 billion in 2010, the government said last month, reflecting growing foreign confidence in the economy despite Beijing's dampening measures.

Investment by overseas companies last year rose 17.4 percent year-on-year, with more than a fifth of the money flowing into the booming property sector, Yao said last month.

Analysts say strong growth in the world's second-largest economy and expectations for a stronger currency have attracted a growing number of foreign investors to China, hoping for a better return on their money.

But the government, alarmed by soaring food and property prices, has been trying to reduce the volume of money flowing into the economy as inflation continues to soar.

## Indian tycoon Ambani questioned over telecom scam

AFP, New Delhi

Indian telecom tycoon Anil Ambani met police investigators on Wednesday to answer questions over a suspected mobile licensing fraud that robbed the government of billions of dollars.

Ambani's Reliance ADA group, which controls India's second-biggest mobile group Reliance Communications, said the visit by the billionaire to the Central Bureau of Investigation (CBI) headquarters in New Delhi was voluntary.

"No summons of any kind has been issued by the CBI," the Reliance statement said.

Ambani, India's fourth-richest man with an estimated \$13.7 billion fortune, according to Forbes, met CBI officials "to clarify ongoing issues relating to telecom matters", the group said.

The CBI would not immediately comment on Ambani's visit in connection with the widening police probe into the alleged fraud, one of the biggest corruption cases in Indian history that has badly damaged the Congress-led government which is also battling a slew of other scandals.

Television channels showed the 51-year-old Ambani leaving the CBI offices mobbed by TV crews.

Reliance ADA Group has denied any wrongdoing over the second-generation (2G) licensing scandal in which the government sold mobile licences at knock-down prices in 2008.

## Nestle emerging market growth to offset cost rises

REUTERS, Vevey, Switzerland

Nestle, the world's biggest food maker, said strong demand in emerging markets would help it offset a steep rise in input costs in 2011 after it beat sales forecasts for 2010.

The maker of Nescafe coffee and Gerber baby food said it was well placed to cope with rising commodity prices by making cost savings and pushing up its own prices.

"We saw a significant uptick in raw material prices in the second half," Chief Financial Officer Jim Singh said in a conference call on Thursday. "We expect 2.5-3 billion Swiss francs additional input costs in 2011."

The increase would be about 8-10 percent on a cost base of about 30 billion Swiss francs, a Nestle spokesman said.

Nestle can rely on its strong presence in emerging markets, where underlying sales growth was 11.5 percent in 2010, and the appeal of brands such as KitKat chocolate bars to offset rising costs for milk, cocoa, coffee, sugar and grain.

"I cannot tell you what the pricing will be, that depends on the different markets," Singh said.

Underlying sales growth in 2010 rose 6 percent to beat a Reuters forecast of 5.5 percent, and accelerated to 6.4 percent in the fourth quarter, making the group confident of meeting its long-standing target of 5-6 percent growth in 2011.

Nestle shares were up 1.6 percent at 0852 GMT, outperforming a 0.8 percent rise in the STOXX 600 European Food & Beverage index.

Peers Danone and Unilever recently said they were confident about passing on higher costs, but Kraft Foods cut its 2011 forecast for earnings growth because it expects some consumers to be put off by price increases.

"We see Nestle as best placed to



AFP

Nestle chief executive officer Paul Bulcke holds one of his company's products yesterday at the headquarters of the world's biggest food company in Switzerland. Nestle posted \$35.7 billion in 2010 net profits, strongly boosted by its disposal of stakes in eyecare group Alcon.

escape the volatility of costs which are impacting the food sector in 2011," Deborah Aitken, an analyst at brokers Bryan Garnier said.

Full-year net profit at Nestle rose to 34.2 billion Swiss francs, including the proceeds from the sale of its remaining stake in eyecare group Alcon to Novartis.

Annual sales at its Nespresso premium coffee capsules brand exceeded 3 billion Swiss francs (\$3.1 billion) for the first time, Nestle said.

"A very strong set of figures with underlying earnings ... on the back

of stronger-than-expected top-line growth driven by emerging markets and Asia. Its outlook statement is reassuring," Kepler Research analyst Jon Cox said.

Vontobel analyst Jean-Philippe Bertschy said the dividend increase of 15.6 percent to 1.85 francs per share was high, but the lack of comment on an additional share buyback was a bit disappointing.

Nestle currently has a 10 billion Swiss franc share buyback under way and is expected to conclude it in the first half of the year.



AFP

Japanese dancing group "World order", led by former kick boxer Genki Sudo (C), in business suits perform with US computer giant Dell's smart phone "Streak" at a promotion event of the Android OS electronic gadget with a 5-inch sized touch screen display in Tokyo on Wednesday.